Strictly Confidential.

PAPERS

REGARDING

THE MYSORE SUBSIDY

VOLUME III.

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Mysore Subsidy.

1. *No. C. 3783—358, dated the 28th April 1925, from Major K. A. G. Evans Gordon, Secretary to the Resident in Mysore, to A. R. Banerji, Esq., C.S.I., C.I.E., I.C.S., Dewan of Mysore, Bangalore.*

I am directed to refer to the correspondence ending with your confidential letter No. R. 68, dated the 13th June 1924.

2. The representations made by His Highness the Maharaja of Mysore and His Highness' Government in the matter during the last two years are contained in the marginally cited documents, and I am desired to convey the observations of the Government of India on these representations. They cover a very wide field and for convenience of discussion may suitably be classified under the following four main heads:—

Note by His Highness the Maharaja of Mysore, dated 6th December 1923.
Letter from the Dewan of Mysore to the Resident, No. R. 68, dated 13th June 1924.
Kharita from His Highness the Maharaja, to His Excellency the Viceroy, dated 12th July 1924, with Memorandum attached thereto.

(*a*) General arguments against the subsidy ;

(*b*) General criticism of what may be described as the 15 per cent scheme—*i.e.*, the principles communicated to you in confidential letter No. C. 3063—358, dated the 8th January 1924, from the Secretary to the Resident ;

(*c*) Certain matters of detail connected with the mode of calculating the gross revenues of the State for the purposes of the 15 per cent scheme ; and

(*d*) Request for a reduction of at least 10 lakhs in the subsidy in addition to such remission as may be admissible under the 15 per cent scheme.

3. In paragraph 2 of the note which was handed to His Excellency the Viceroy by His Highness the Maharaja on the 6th December 1923, it is urged that the subsidy was fixed both for internal and external protection. In paragraph 6 of your letter, dated the 13th June 1924, it is stated that the subsidy is made up of (i) 24½ lakhs "for the maintenance of a British Force in Mysore," and (ii) 10½ lakhs representing Mysore contribution for external defence. The claim has accordingly been advanced that as, under modern conditions, there is no longer any need for special protection by means of a subsidiary force, and that as His Highness actually maintains troops for service with the armies of the British Government, the entire subsidy should be remitted.

4. The Government of India point out that the above statement regarding the composition and purpose of the subsidy is not a historically correct version of the situation which has existed since the execution of the Instrument of Transfer in 1881. By Article 5 of that Instrument, which was reproduced in Article 4 of the Treaty of 1913, the subsidy of 24½ lakhs was enhanced to 35 lakhs and the British Government undertook to defend and protect Mysore territories against all *external* enemies and to relieve the Maharaja of the obligation to keep troops ready to serve with the British Army when required. The Government of India are still pledged to protect His Highness and his territories from all external enemies, though of course there is no question of maintaining a subsidiary force.

5. The Government of India are unable to agree that "conditions have entirely changed" since the Mysore State entered into the obligations recited in the solemn engagements referred to above. If the reference is to an earlier date, it may be pointed out that such changes as have occurred during the last century in regard to the internal security of India are due to the general protection afforded by the Imperial Government to all parts of the country, and that Mysore, in common with other contributing elements, has received, and continues to receive, full return for the money thus expended. The Government of India, are therefore, unable to admit that the protection afforded to Mysore under the Treaty of 1913 can fairly be described as 'special' or that the necessity for it has ceased to exist.

6. There is, however, no disposition on the part of the Government of India to dispute the fact that His Highness the Maharaja of Mysore is maintaining troops for Imperial Defence and has thus voluntarily reassumed the obligation commuted by Article 5 of the Instrument of Transfer. In this connection, I am to point out that the maintenance of troops for Imperial Defence by Indian States

is entirely optional. It was in order to meet such cases in which a State not only pays for protection but also maintains troops for Imperial Service, and thus, to some extent, pays twice over for the same purpose, that the scheme for the remission of tribute, where the tribute paid and the cost of troops maintained for Imperial Defence, taken together, exceed 15 per cent of the State revenues was designed. The criticisms directed by His Highness and his Government against this scheme will be dealt with later. It is sufficient to remark here that it rests upon a logical basis and that the fact that it does not afford to the Mysore Government the degree of financial relief which they had hoped for is not a conclusive demonstration of its insufficiency.

7. In paragraph 3 of His Highness' note and in paragraphs 5 and 10 of your letter, dated 13th June 1924, stress is laid on the agrument that the financial capacity of the State is not such as to admit of payment of the subsidy without sacrificing the efficiency of the administration. I am to say that the Government of India regret their inability to accept this as a convincing argument in respect of a Treaty obligation, particularly as the amount of the subsidy was fixed long ago and represents a diminishing percentage of the growing revenues of the State.

8. Nor can the Government of India allow to pass without comment His Highness' assertion that the fact that his State has been subject to this levy for a century and a quarter is, in itself, a just ground for complaint. Here it appears necessary to remind His Highness that the subsidy is being paid, in accordance with a solemn treaty obligation, in return for protection that has been duly given to his State.

9. Similarly, as regards the view that the subsidy is " an out-of-date humiliation " which operates harshly against Mysore as compared to other States not subject to similar exactions, it seems necessary to point out that where a subsidy or tribute is paid, there is in every case good historical reason for the arrangements in force. All States in India are protected by the British Government, and all are in a position of dependence on it. The fact that some expressly pay for the protection while others do not may not unnaturally be distasteful to the former, but can hardly be accepted as necessitating the revision of a situation which is the natural outcome of historical events. Nor do the Government of India regard such revision as a practical proposition, particularly in view of the fact that many States have permanently compounded their obligations to contribute towards Imperial Defence by cessions of territory and by other arrngements which could not now be disturbed.

10. The only other argument which need be considered in relation to this aspect of the question is based on recent and impending constitutional changes in British India. This argument has been forcibly developed in the letter addressed by His Highness the Maharaja to His Excellency the Viceroy in July last. The Government of India fully aprpeciate the nature of His Highness' feelings in the matter but are unable to concede that the changes referred to are sufficiently radical to warrant a departure from existing arrangements. The British Government still continues to be responsible for the maintenance of peace in India and for its protection against external foes and, until that responsibility is definitely handed over to a reformed Government by a process which might reasonably be expected to involve a review of the conditions of co-operation by Indian States, there can be no anomaly in the continuation of Treaty payments by Mysore and other States to the Power by which protection is still actually afforded.

11. Turning now to the general criticisms directed against the 15 per cent scheme, the Government of India observe that His Highness in his note dated 6th December 1923 has stated that the scheme will not give any substantial relief to the State and that 15 per cent is an unduly high percentage for the State to spend on its military forces and will become more so when the revenues of the State expand. The first part of His Highness' representation is not easily reconciled with the claim made in paragraph 13 of your letter of 13th June 1924, that a remission of 17 lakhs will be admissible under the scheme as it stands. It will, however, be shown below that this claim is based on a fundamental misunderstanding of the intentions underlying the scheme and the Government of India admit that His Highness' misgivings regarding the amount of relief actually admissible appear to be well founded. The Government of India are not, however, prepared to concede that this fact is sufficient to condemn their scheme, which has,

in point of fact, been based on a liberal calculation of what a State might reasonably be required to spend on defence. The argument that the scheme is not sufficiently liberal is not supported by the fact that in the first case in which its practical application arose (in connection with the Kapurthala State) complete remission of tribute was, as has been noticed in the Memorandum attached to His Highness' letter of 12th July 1924, found to be justified. If conditions in Mysore and Kapurthala had been identical it would have been a source of great pleasure to the Government of India to extend a similar remission to the former State, but unfortunately this is not the case and they are at present unable to go beyond the limitations imposed by the scheme as promulgated. The possibility of reconsidering, in certain eventualities, the existing ratio of 15 per cent has not, however, been overlooked, and indeed it was made clear in this office confidential letter No. C. 3063—358, dated the 8th January 1924 that this ratio would be open to reconsideration at a future date, if and when conditions change and the Government of India are able to reduce the ratio of their military expenditure.

12. With reference to the method to be adopted in determining what is the gross revenue of the Mysore State for the purposes of the scheme, the Government of India observe that you have suggested in paragraphs 11 and 12 of your letter on the subject :—

(*a*) That the average annual gross revenue of the last two instead of five years should be taken as the gross revenue of the State, and

(*b*) That two items of revenues, *viz* :—

(1) royalty on gold and other minerals, and

(2) revenues of debt and commercial services, should be excluded from the calculation.

13. With regard to (*a*), the Government of India repeat that it would not be logical or practicable to depart at this stage from the provisions of the scheme as promulgated. The decision to take an average of five years was adopted as fair to all parties. Such a figure was taken in the Kapurthala case and this feature of the scheme cannot be altered to meet the wishes of any particular State, since, unless uniformity is preserved, the scheme, as such, must cease to exist. The Government of India therefore regret that they are unable to accede to the Mysore Government's request. They will, however, of course, be prepared to take into account at any time changes in the revenues of the State or in the scale of its military expenditure.

14. As regards the exclusion of certain items from the calculation, I am to say that the Government of India have given the matter their careful consideration, and do not find themselves in complete agreement with the views of the Mysore Government. In calculating their own gross revenues, receipts of all kinds are taken into consideration, except that in the case of Railways, Irrigation and Posts and Telegraphs, a deduction is made on account of working expenses and that in the case of Railways a further reduction is also made for surplus profits paid to companies. Applying these principles to the case of Mysore, the Government of India consider that receipts on account of the Royalty on gold, etc., and interest receipts should be included in calculating the gross revenues. In the case, however, of railways and other commercial concerns a deduction from the gross receipts may be allowed on account of working expenses, but not on account of debit charges.

15. It will not be necessary to deal with the misunderstanding referred to in paragraph 11 above as underlying your assumption that, even under the scheme as it stands, the Mysore Government will be able to claim a remission of approximately 17 lakhs of rupees. This calculation appears to rest not only on the assumption that the Government of India would be able to meet your views in regard to the manner of calculation of the revenues of the State, but also on the hypothesis that the whole of the State's military budget would be permitted to rank towards eligibility for remission. The Government of India are unable to find any foundation for this hypothesis in the terms in which the scheme was formulated, as set forth in this office confidential letter No. C. 3063—358, dated the 8th January 1924. It was made clear in that letter that the scheme related only to—

(*a*) troops of undoubted efficiency maintained for Imperial defence, *i.e.*, first line troops designated as class 'A' for armament purposes under the scheme for the re-organisation of Indian State Forces, and to be placed unreservedly at the disposal of Government on the occurrence of an emergency, and

(*b*) such "internal security troops" as are ear-marked for the protection of strategic and important non-strategic railways within the State. It must here be remarked that there are no such railways in the Mysore State except for the few miles of line between Harihar and the Mysore frontier.

16. It was also contemplated that due allowance would be made for the cost of military service units, reserves, pensions, etc., in respect of troops of the nature indicated above. The principal adopted by the Government of India in this latter respect is—

(i) To add to the cost of qualified units 70 per cent on account of reserves and a further 12½ per cent for pensionary charges, and

(ii) To admit only such proportion of overhead charges such as "Headquarters Staff" Military Works, etc., as may fairly be calculated to relate to such qualified units.

17. The extent to which the Mysore Government's military expenditure can be accepted under the above principles as ranking towards eligibility for remission of the subsidy will be indicated in a latter paragraph, but I am to refer here to paragraphs 9 and 10 of your letter of 13th June 1924, in which the hope is expressed that on account of the efficiency of the Mysore administration, the friendliness and unswerving loyalty of His Highness and his subjects to the Paramount Power and in consideration of the services rendered by the State to the British Government during the Great War, the State should be given the full benefit of the "greater liberality" which the principles of the scheme for the remission of tributes permit. In regard to this, the Government of India point out that these factors are applicable only in considering:—

(1) Whether Mysore should receive the benefit of the scheme at all, and
(2) If so, whether it should get the fullest benefit.

The idea underlying the scheme is that ordinarily the full amount of relief admissible under the 15 per cent rule would not be given in every case. It was never contemplated that factors of the nature mentioned by you would in any case be allowed to justify a measure of generosity greater than the maximum admissible under the scheme and that the amount of relief might in special cases be increased above what the standard ratio of 15 per cent would allow.

18. It is perhaps owing to misunderstandings of this nature that both His Highness and you have specifically put forward the suggestion that a further remission of 10 lakhs, over and above such amount as may be found admissible under the 15 per cent scheme, should be made in the Mysore Subsidy. This suggestion is largely based on the services rendered to the Empire by His Highness and his State during the Great War, and the Government of India feel some embarrassment in replying to what appears, to be, in effect, a claim for recognition of such services, especially as such a claim is tantamount to a reflection on recognition already granted. As, however, this delicate subject has been specifically referred to, the Government of India feel obliged to point out that they must be the sole judge of the form which such recognition should take, and to remark that the admitted fact that His Highness is an exemplary Ruler, on whose friendship and co-operation they set the highest value, cannot be accepted by them as justifying the imposition on the people of British India of the extra financial burden which would be the result of acceding to the suggestion under reference.

19. While dealing with this very delicated question of services rendered, the Government of India feel constrained to observe that the contention in paragraph 13 of your letter that His Highness' Government were "under no obligation to contribute in any shape or form" to the expenses of the War is one which must be emphatically repudiated. It is not proposed to discuss here the question of the general obligations applicable to all States which are component parts of the British Empire, but the Government of India consider that it appears necessary to invite attention to Article 3 of the Mysore Treaty of 26th November 1913, by which the Maharaja of Mysore bound himself and his successors "at all times to remain faithful in allegiance and subordination to His Imperial Majesty the King Emperor of India, His Heirs and Successors, and perform all duties, which, in virtue of such allegiance and subordination, may be demanded of them." It is undoubtedly true and is greatly to the credit of the Princes of India, that during the Great War there was no occasion for the British Government to make demands on the States, and that the Rulers came forward voluntarily to give such assistance as was in their power. Nevertheless the constitutional position in the case of such a State as Mysore is obvious from the Article quoted above and can admit of no controversy.

20. His Highness the Maharaja of Mysore in paragraph 6 of his note, dated the 6th December 1923, has put the matter from an entirely different and more logical point of view and has requested that, as a matter of favour, his State may

be granted at least a temporary relief for a few years to the extent of 10 lakhs a year. In reply to this request, I am to say that the Government of India are not unmindful of the fact that the enhancement of the subsidy, provided for by the Instrument of Transfer of 1881, was postponed from 1881 to 1896, the Mysore State thus receiving a free gift, at the expense of British Indian Revenues, of approximately one and a half crores of rupees. Conditions are, however, very different to-day and the Government of India cannot admit that sufficient justification exists for granting this concession to Mysore at the expense of the British Indian tax-payer.

21. Having thus cleared away all extraneous matter the real issue at stake can be considered, namely, the application to Mysore of the 15 per cent scheme, the nature of which has, it is hoped, been made clear in the foregoing paragraphs. In this connection, the Government of India intimate that in view of the special circumstances and needs of the Mysore State the Government of India are prepared to extend to the State the full benefit of that scheme and to reduce the amount of the subsidy by such amount as may be ascertained on that basis, on the distinct understanding that the relief to be granted is purely a matter of favour and that the Government of India are free to apply or refuse to apply the principle on which it is based, or to modify subsequently, for reasons which may appear to them to be sufficient, the standard originally adopted.

22. Calculated on the basis explained in paragraphs 15 and 16 above, the approximate expenditure of His Highness' Government which is qualified to be taken into consideration for purposes of the scheme appears to be roughly as under:—

No.	Units	Cost	Remarks
		Rs.	
1	Mysore Lancers	5,80,000	
	20 per cent for reserves	1,16,000	
	Further 12½ per cent for pensions, etc.	87,000	
	Total ...	7,83,000	(*a*) This is the full cost. No addition has been made for reserves and pensions, etc., as it seems probable that a large part of this transport is not attached to the 1st line troops.
2	First Line Infantry Battalion (with band)	3,42,000	
	20 per cent for reserves	68,400	
	Further 12½ per cent for pensions, etc.	51,300	
	Total ...	4,61,700	
3	Miscellaneous—		(*b*) Full expenditure is stated to be Rs. 1,50,000 but a deduction of 33⅓ per cent has been made from this and also from the cost of "Head Quarters" on the ground that a large part of the expenditure must be in connection with 2nd line troops.
	Transport Corps	75,000 (*a*)	
	Stores	15,000	
	Military works	1,00,000 (*b*)	
	Head-Quarters	50,000	
	Total ...	2,40,000	
	Grand Total ...	14,84,700	
	Subsidy ...	35,00,000	
	Total ...	49,84,700	

23. The average annual revenue of the Mysore State from all sources for the five years ending 1922-23 as given in Appendix C attached to your letter of 13th June 1924, amounts to Rs. 3,15,30,400, 15 per cent of which would work out at Rs. 47,29,560. In view, however, of the decision to deduct the cost of working expenses for railway and other commercial concerns from the figures of gross revenues, the latter amount will have to be decreased by a sum still to be ascertained. Taking this at the tentative figure of 1 lakh the figure representing 15 per cent of the State Revenues would be reduced to Rs. 46,29,560. According to these calculations, which are only approximate and liable to variation on the basis of actuals, as ascertained from His Highness' Government and scrutinised by the Residency and by the Government of India, the Mysore State would be eligible for a remission of roughly 3½* lakhs per annum.

	Rs.
*Total military expenditure including subsidy.	49,84,700
Deduct—	
15 per cent of gross revenues of States after deducting the working expenses of commercial concerns.	46,29,560
Balance ...	3,55,140

24. I am further to request that the Mysore Government will supply such further detailed information as may be considered necessary in regard to the gross revenues and the military expenditure of the State with a view to enable the Government of India to determine the precise amount of relief to be granted.

25. In conclusion, the Government of India desire it to be made clear that such reduction in the subsidy as may be found admissible will take effect from the date on which the Mysore troops in respect of which it is to be granted are certified by the Military Adviser-in-Chief, Indian State Forces, as efficient and that a definite and unconditional undertaking should be given that they will be placed at the disposal of the Government of India on the occurrence of an emergency. In this connection, I am to say that the intentions of His Highness' Government as expressed in paragraph 5 of letter No. Pol. 873*—Encl. 1, dated the 18th March 1924, from the Chief Secretary to the Government of Mysore, do not, in the opinion of the Government of India, amount to a sufficiently clear and unconditional promise of the nature required for the purposes of the 15 per cent scheme.

* *Vide* File regarding Military Reorganisation.

2. *Financial Secretary's Note dated 13th May 1925 on the Residency letter No. C 3713-358, dated 28th April 1925, regarding the Subsidy.*

The reply of the Government of India to our D. O. letter No. R 68, dated 13th June 1924, conveyed in the above communication raises a number of political points of a highly controversial character and I do not propose to consider them in this note. Whether we should pursue the proposal for remission of the Subsidy according to the present scheme of rebates is the immediate question to be settled and it is sufficient for deciding it to deal with only the financial side of the problem.

2. We proposed the following modifications in the method of calculating 15 per cent of gross revenues :—

(i) Adoption of the average of gross revenue of two years instead of five years.

(ii) Exclusion from gross revenues of royalty on gold and other minerals.

(iii) Inclusion in gross revenues of only the net result of Debt and Commercial Services.

3. The Government of India do not agree to any of these modifications. All that they are prepared to concede is that working expenses may be deducted from the gross receipts of commercial concerns : *vide* paras 14 and 23 of the Residency letter. This is no concession at all as it is almost the universal practice for Governments to include in their general revenues only the net receipts or profits of commecial concerns. As a matter of fact, the gross revenues noted in Appendix C to our letter dated 13th June 1924 already exclude the working expenses of commercial concerns and there is no further reduction of these revenues to be made as stated in para 23 of the Residency letter.

4. As the Government of India refer only to working expenses, they apparently will not allow even contributions to the Depreciation Funds of commercial concerns to be excluded from gross receipts. According to their recent scheme of separation of Railway Finances from General Finances, the Government of India themselves exclude from their gross revenues not only contributions to the Railway Depreciation Fund but also those to a General Railway Reserve Fund.

5. Our net railway receipts are arrived at after excluding guaranteed interest and even this item has, according to the view of the Government of India, to be treated as part of the gross revenues which should contribute to military charges.

6. The following statement shows, for the latest five years, gross revenues excluding working expenses, contributions to Depreciation Funds, and guaranteed interest. The surplus profits paid to the Madras and Southern Mahratta Railway Company are treated as part

of working expenses in view of what is stated in para 14 of the Residency letter.

Year.	Total Revenues. Rs.
1920-21	313·13
1921-22	312·05
1922-23	343·98
1923-24	337·57
1924-25 (Revised Estimate)	337·59
Total ..	1,644·32
Average	328·86
15 per cent of Average	49·33

7. The following statement shows gross revenues excluding only working expenses and surplus profits, *i.e.*, including contributions to Depreciation Funds and guaranteed interest:—

Year.	Total Revenues. Rs.
1920-21	324·37
1921-22	325·15
1922-23	358·23
1923-24	352·09
1924-25 (Revised Estimate)	358·73
Total ..	1,718·57
Average	343·57
15 per cent of Average	51·56

8. The military expenditure which will be permitted to rank for eligibility for remission is taken by the Government of India at Rs. 14·85 lakhs: *vide* para 22 of the Residency letter. Mysore Horse, Grass Farms, Kunigal Stud Farm, and Palace Military are altogether excluded from this calculation and as for Headquarters, Transport Corps, Military Works, and Pensions, only a share of these charges is assumed to reckon as military expenditure for the purpose of claiming remission of the Subsidy. The outlay on Mysore Lancers, First Line Infantry, and Military Works, included in the aggregate sum of Rs. 14·85 lakhs is larger than its present level and if any remission of the Subsidy is asked for, we shall have to raise the existing standard of charges on these heads and the increase will be as under:—

(Figures in lakhs of Rupees.)

Heads	Present standard Budget 1924-25	Standard according to Re-organization including reserves as taken by the Government of India	Increase in expenditure
Mysore Lancers	4·23	6·96	2·73
Infantry	3·81	4·10	·29
Military	·72	1·00	·28
Total ..	8·76	12·06	3·30

9. I do not know if, according to the proposed re-organization, it is intended to maintain any battalion of Infantry in addition to the First Line of this Unit for

Imperial purposes. I have assumed in the above statement that the only Infantry kept on will be the First Line Force.

10. The position in respect of remission of the Subsidy will, in the circumstances stated above, be as under :—

(Figures in lakhs of Rupees.)

Total Military expenditure ranking for remission		15 per cent of gross revenues according to statement in para 6	Amount of remission	Increased Military expenditure	Net result-additional burden
Subsidy .. 35·00 Army .. 14·85					
	49·85	49·33	·52	3·30	2·78
		15 per cent of gross revenues according to statement in para 7. 51·56	Nil.	3·30.	3·30

11. The present level of annual expenditure on Army is about Rs. 17·22 lakhs and the future standard cannot be reduced to Rs. 14·85 lakhs as taken by the Government of India, nor can it be limited only to the items of outlay which alone that Government are prepared to admit as ranking for remission of the subsidy.

12. It will be seen from what is stated above that we have absolutely nothing to gain from the Scheme : on the other hand, if we elect to avail ourselves of it, it will not only place an additional burden on our finances but will also materially alter—much to the disadvantage of the State—the political relation of Mysore to the Government of India in respect of military obligation as stated in paras 17 to 20 of my note dated 25th January 1924. The only condition on which we could have agreed to come under that Scheme was, as stated in paras 26 and 31 of the said note, that it afforded us substantial financial relief and there was a reasonable certainty of our getting the benefit of the rebate for, at least, a few years to come. There is neither present nor prospective benefit to us from the Scheme and in spite of this fact, the Government of India tell us that "the relief to be granted is purely a matter of favour," *vide* para 21 of the Residency letter, and I think we may decline this favour with thanks.

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3. Note dated 2nd August 1925 by the First Member of Council, Mr. K. R. Srinivasa Iyengar.

In the Residency communication dated 8th January 1924 addressed to the Dewan communicating the principles governing the remission of subsidies under the 15 per cent scheme, it was stated that certain factors—such as the past history of the State, etc.—will be taken into consideration to determine whether a State should be treated with greater liberality than others and should be given

special consideration. It was hoped that, under this provision, the Government of India would deal with us in a liberal and generous manner, so that we may be able to get substantial relief ; and it was in this expectation and hope, that we gave our consent (in Dewan's letter dated 13th June 1924 to the Residency) to avail ourselves of the scheme, without prejudice to our claim for a complete readjustment of our financial relation with the Government of India. The interpretation put by the Government of India on the Residency communication of 8th January 1924—that the factors mentioned therein would only go to determine the applicability of the 15 per cent scheme to any particular State—and the method of calculation adopted by them to determine the maximum amount of relief which we can get under the scheme have frustrated our hopes of substantially benefiting by the scheme. The Government of India's refusal to allow even our reasonable request to deduct from the gross receipts of the State even the debt and interest charges paid by us, for arriving at the net figure on which the 15 per cent should be calculated is highly disappointing and discouraging. According to the calculations of the Government of India, the relief that we shall get under the 15 per cent scheme will be only about 3½ lakhs ; and to secure this relief, we have to incur an additional expenditure of 3 to 4 lakhs per annum over the re-organization of our Military forces, so that in the net result, we get no relief but shall, on the other hand, be really worse off, particularly in view of the obligations imposed on us regarding our troops, referred to in the last para of the Residency's letter. In the circumstances, unless the 15 per cent scheme can be either modified or interpreted and applied to us in a more generous and liberal spirit, so as to give us a substantial measure of relief to the extent of at least 15 lakhs, we must regretfully ask for permission to withdraw the consent given by us to come under the operation of the scheme and press our claims for relief once more on the general grounds which have been already advanced so often and try to meet, on the following lines, the arguments advanced against us in the Residency communication.

2. The subsidy was fixed at 35 lakhs of Rupees per annum, at a time when the indirect contribution of the State to the British Government was negligible and amounted to only about 22 lakhs per annum, being confined to the excess duty on salt [para 6 (*c*) of Sir Seshadri Iyer's note—Page 17 of Volume I of the printed collection]. The present indirect contribution of Mysore to the general revenue of British India amounts to about a crore of rupees (Dewan's note on page 72 of Volume I). In view of this large increase far exceeding the subsidy—in the indirect contribution since the subsidy was fixed, our demand that the subsidy should be waived in full cannot be considered unreasonable. The Government of India have themselves conceded in another connection that the claim of Mysore for a share in the customs revenue contributed by her to British India is worth consideration. But they have observed that the consideration of the question and its decision will take time as it is a general one affecting all Native States. Any delay in the determination of the question may not vitally affect the other States. But so far as Mysore is concerned, we are in need of urgent relief in view of our financial position.

We may therefore not unreasonably ask that, instead of our having to wait indefinitely till the general question is decided by the Government of India, we may be allowed to suspend the payment of our subsidy or at least a moiety of it, till our claims to the customs revenue are finally decided.

3. In para 18 of the Residency letter, referring to the services rendered by the Mysore State and by His Highness, it is stated that the Government of India must be the sole judge of the form which the recognition of such services should receive. In reply, it may be urged that in asking for the abolition or reduction of the subsidy in recognition of His Highness' continued loyalty and services to the Empire, there was no intention to question the Government of India's right to be the sole judge of the recognition to be given for such services, but it was only meant to indicate and bring to the notice of the Government of India the form of recognition which His Highness would value and appreciate best.

(The Government of India say that the claim for recognition made by His Highness is tantamount to a reflection on the recognition already granted. I do not know what is the recognition which the Government of India have already granted to His Highness and his State for their continued loyalty and their splendid services to the British Empire during the last war, for which they have to feel particularly grateful to the British Government. Any reflection cast on the Government of India on the non-recognition of such services will not be unwarranted and unjustifiable, however unpalatable it may be to the Government of India.)

4. With regard to the argument advanced in paras 19 and 20 of the Residency communication that any relief granted to the Mysore State will be at the expense of the British Indian tax-payer, the British tax-payer had no voice in the drawing up of the treaty between Mysore and the British Government; and he can have no voice in any modification thereof, the relations between the Government of India and the Native States being outside the purview of the Legislative bodies in British India. There is nothing therefore to prevent the Government of India from revising the treaty with us and waiving the whole or a portion of our subsidy if they wish to do so without reference to the British Indian tax-payer as represented in the Legislative bodies in British India.

5. As regards the observations contained in paras 8 and 9 of the Residency communication that the subsidy is paid in accordance with a solemn treaty obligation which cannot be now disturbed, it may be argued that treaties and agreements are not meant to be in force for all time and that they have to be changed from time to time according to altered conditions and circumstances. Instances of modifications in treaties to such changed conditions are quite common. Mysore itself affords evidence of it. The original Subsidy Treaty of 1799 was modified by the Instrument of Transfer of 1881 and again by the treaty of 1913. As the weaker party in the agreement we cannot insist on the revision of the treaty to suit the altered conditions of the present times; and we have therefore to adopt the only course open to us of appealing to the generosity of the stronger party, and asking it to deal with us in a spirit of good-will, sympathy and

liberality, in view of the special considerations urged by us.

6. Finally, as a last resort, if the Government of India are not prepared to give us substantial relief on the general grounds advanced by us, we may ask that we may at least be given credit out of the subsidy, for the expenditure incurred by us on the troops maintained by us for Imperial service. It is true that the maintenance of these troops is a voluntary and self-imposed task which Mysore has taken on itself and that we have no *right* to ask for the cost of the troops being set off against the subsidy. But in view of the high state of efficiency in which these troops are maintained and the splendid services rendered by them during the late War, and the fact that it will be unfortunate if any retrenchments have to be effected in these troops to maintain the financial equilibrium of the State, we may express the hope that our request to be given credit at least for the expenditure on the troops in the payment of the subsidy will not be considered unreasonable.

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4. Financial Secretary's further note dated 21st October 1925.

We proposed to exclude from gross revenues, on which the calculation of 15 per cent should be made, the following items:—

1. Royalty on gold and other minerals,
2. Interest charges,
3. Contribution to Loan Sinking Funds, and
4. Contribution to Depreciation Funds of commercial concerns.

2. In para 14 of the Residency letter dated 28th April 1925, it is stated that the Government of India do not agree to the exclusion of any of these items. I do not think they will change their attitude in regard to items 2 and 3. The case for omitting item No. 1 is not without force and we may make another representation on this point. It is, however, doubtful if they can be persuaded to agree with us. The Government of India have, as part of the Scheme of Separation of Railway Finances from General Finances, excluded contributions to the Railway Depreciation Fund from their general revenues and they cannot object to our adopting a similar procedure. The arrangement followed in the case of Railways should apply to all commercial concerns and productive works and we can, therefore, claim that Depreciation Fund contributions on account of Electrical Works, Sandal Oil Factories and the Kolar Gold Fields Water Works should also be omitted. Our gross revenues exclude these contributions.

3. A statement is appended showing what the 15 per cent of gross revenue will be:—(1) When both Depreciation Fund contributions and Royalty on gold and other minerals are excluded, and, (2) when only Depreciation Fund contributions are excluded. From 1924-25 we are receiving the interest on the Railway Sterling Loan Sinking Fund. This is an item of revenue though we are using it for capital purposes and the Government of India will not, considering the view they have expressed about interest receipts and charges, allow it to

be excluded from gross revenues. This item is, therefore, added to gross revenues in the statement.

(Figures in lakhs of Rupees.)

	1920-21	1921-22	1922-23	1923-24	1924-25 Revised
(*a*) Total revenues ordinary and extraordinary.	313·13	312·05	343·98	337·57	337·60
Add—					
(*b*) Interest on Railway Sterling Loan Sinking Fund.	...	...	...	...	4·69
(*c*) Railway Guaranteed Interest not included in (*a*).	6·72	7·65	7 68	7·36	6·96
Alternative No. 1 ...	319·85	319·70	351·66	344·93	349·25
Deduct—					
Royalty on gold and other minerals.	14·64	15 98	14·82	14·66	13·37
Alternative No. 2 ..	305·21	303·72	336 84	330·27	335·88

Average of Alternative No. 1 ...	337·08	Average of Alternative No. 2 ..	322·38
15 per cent of do ...	50·56	15 per cent of do ...	48·35

4. The amount of military expenditure which will, according to the Government of India, count for eligibility for remission is Rs. 14·85 lakhs. The heads of expenditure omitted by them are Mysore Horse, Grass Farms, Kunigal Stud Farm and Palace Military. I do not know if we can press for the inclusion of any of these items. If the Palace Military can be regarded as coming under Class A Troops, we may ask for this item being included in the charges on which the rebate calculation should be made. The present annual level of this charge is Rs. 2 lakhs and including it, the aggregate expenditure ranking for remission is Rs. 14·85 lakhs *plus* Rs. 2·00 lakhs = Rs. 16·85 lakhs.

5. The position in regard to the amount of remission is as follows:—

(Figures in lakhs of Rupees.)

Total military expenditure ranking for remission		Fifteen per cent of gross revenues according to alternative No. 1 (*vide* statement)	Amount of remission
Subsidy ..	35·00		
Army ..	16·85		
Total ..	51·85	50·56	1·29
		Fifteen per cent of gross revenues according to alternative No. 2 (*vide* statement) 48·35	3·50

6. Against the remission of Rs. 3·50 lakhs or Rs. 1·29 lakhs, has to be met the additional expenditure of Rs. 3·30 lakhs which should be incurred by us before we can ask for any reduction of the subsidy: *vide* para 8 of my note dated 13th May 1925. The net financial result of the arrangement is, therefore, either no relief or an additional burden to be borne by us.

7. The amount of reduction of subsidy claimed in para 13 (Page 93 of Printed Collection, Vol. I) of our letter dated 13th June 1924 was Rs. 17 lakhs but this calculation

was based on the elimination from gross revenues of (1) royalty on gold and other minerals, and (2) Interest and Sinking Fund charges and on the expenditure on the Army being taken at Rs. 22 lakhs, *i.e.*, Rs. 4·67 lakhs more than the current year's budget estimate. The Government of India do not agree to the reduction of gross revenues proposed by us; nor are they prepared to concede that all the items of charges included under the head 'Army' represent expenditure for Imperial Defence. I do not, therefore, see any means of making out a case for asking for a remission of Rs. 10 lakhs according to the present scheme of rebates.

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5. *A note on the question of Subsidy, explaining the nature of the representations made and discussing the replies received thereto from time to time.*

Historical Introduction.

A. SUBSIDIARY ALLIANCE OF 1799.
B. TREATY OF 1807.
C. INSTRUMENT OF TRANSFER OF 1881.
D. TREATY OF 1913.

The initial Treaty of 1799 stipulated that the Maharaja of Mysore was to pay to the Company an annual sum of 24½ lakhs, for the defence and security of the State, that being the price fixed for the protection against internal and external aggression; in addition, the State was required to meet a reasonable share of the expenses of war. A few years later, it was deemed expedient by the contracting parties that the provisions of the Third Article of the Treaty "should be rendered more specific and that instead of the said indefinite contributions in war, the Mysore State should maintain a certain body of Horse in *Peace and War*," and accordingly the Treaty of 29th January 1807 was concluded providing that Mysore should maintain at all times a body of 4,000 effective Horse. The question of the Subsidy came up for consideration in 1867 when Her Majesty's Government decided to hand back the State to the Mysore Ruling Family. Accordingly in 1881, the arrangement was altered and the Subsidy was raised to 35 lakhs a year, 24½ lakhs being for the maintenance of a British Force in Mysore and the remaining 10½ lakhs representing the contributions of Mysore for external defence. The same condition appears in the Mysore Treaty of 1913. Article 4 corresponding to Article 5 of the Instrument of Transfer runs as follows:—

> "The British Government having undertaken to defend and protect the said territories against all external enemies and to relieve the Maharaja of Mysore of the obligation to keep troops ready to serve with the British Army when required, there shall, in consideration of such undertaking, continue to be paid from the revenues of the said territories to the British Government an annual sum of Government rupees 35 lakhs in two half-yearly instalments."

The Famine of 1877-78 led to the levy of the increased subsidy, *i.e.*, 35 lakhs instead of 24½ lakhs, being postponed for 15 years from the date of the Maharaja's accession. In spite of Mr. Gordon's misgivings regarding the capacity of the State to pay the increased subsidy, the Government

of India ruled that the maximum should remain recorded in the Sannad.

Representations for reduction in the Subsidy.

Made from time to time since 1893.—Proposal for permanently deferring the enhancement, permission being given to furnish 2 cavalry regiments.

1895.—Urging the inexpediency of the enhanced levy.

Reply by the Residency in their letter of 2nd December 1895 stating that the enhancement should take effect from 1st April 1896. Appeal to the Secretary of State did not meet with favour.

The question was raised from time to time (1924)—but the claim for remission based on several grounds was not accepted by the Government of India.

General arguments against the high Subsidy.

1. *Economic grounds.*—Mysore pays the largest subsidy among all the Indian States. Indirect contributions (amounting to 119 lakhs in 1923 and growing with increased Indian revenues under those heads) are paid by the people of Mysore—the amount of such indirect contributions being insignificant in 1881. Mysore also spends a large amount on its Military Department (cost in 1925-26 was 17·33 lakhs, out of which Imperial Service troops cost 10·75 lakhs). The direct and indirect payments made by Mysore are proportionately larger than the contributions made by Indian Provinces for similar purposes.

	Lakhs
Mysore Lancers	3·87
Mysore Transport Corps	1·12
Mysore Horse	1·77
Native Infantry	3·98

2. *Political.*—The cost of Military defence is very heavy, resulting in heavier taxation on the people. The existence of a Subsidy for over a century and a quarter is not supported by historical analogies elsewhere in these days of democracy.

3. *Financial.*—Difficulty in balancing the Budget ; administrative efficiency of a high order to be maintained—the introduction of compulsory and free primary education is in great demand, but this measure and even the adequate expansion of primary education has to be deferred for want of funds ; poor prospects of additional revenue from additional taxation.

4. Change of attitude after the War regarding Indian States (voluntary help rendered by the State during the War in men and money).

5. PAX BRITANNICA and absence of need of such a heavy burden for meeting the cost of protection and defence : the maintenance of efficient troops by His Highness.

6. Mysore is prepared to pay her proportionate share (counting both direct and indirect payments) towards Indian defence on an equitable scheme of apportionment, but there is no reason way she should pay more, as she is now doing. (This raises a problem of Federal Finance, which India has to face some time or other.)

7. " It is one thing for a State like Mysore to pay a tribte to a Paramount Power like the present Supreme Government, but an entirely different thing to be tributary to an Indian administration which is to take the place, to a great extent, of the British Paramount Power. The only possible and dignified position for Indian States under the Reform Scheme is one of independent alliance, and from this point of view the subsidies as tokens of political subordination, should be abolished, as in the coming polity the peoples of the Indian States cannot be placed in a position of vassalage to another Indian people, or congeries of peoples, without implanting the seeds of perpetual unrest and friction ; nor can a hereditary Indian Ruler, the Constitutional Head of his people, command the necessary prestige, if he is to be placed in a position of marked inferiority to Indian Government, composed mainly of persons drawn from the social classes of his own subjects." (Page 102, Vol. 1.)

8. The Maharaja being the weaker party while entering the Contract, the irrevocability of the Rendition Contract is no argument.

9. *Standardisation and Revision of Treaty.*—The Treaty of 1913 did not result in any change in the clause relating to payment of subsidy. The old treaties should be revised or interpreted in accordance with present altered conditions.

10. Mysore does not obtain any relief by the application of the new 15 per cent scheme, announced by Lord Reading.

Reply by the Government of India, the claim not being admitted.

1. The Statement made by the Government of Mysore regarding the composition and purpose of the Subsidy (no necessity for the subsidy with the absence of need for special protection and the maintenance of troops by His Highness, the subsidy being made up of (1) 24½ lakhs for the maintenance of a British Force in Mysore and (2) 10½ lakhs representing Mysore's contribution for external defence) was not admitted, as being historically not correct, and the Government of India was still pledged to protect His Highness according to Article 4 of the Treaty of 1913.

2. Change in conditions since the State entered into the obligations : the necessity for protection having ceased, was not admitted by the Government of India.

3. Regarding maintenance of troops for Imperial Defence, it is pointed out that it is a voluntary re-assumption of obligations and provision for remission in such cases is provided under the 15 per cent Scheme.

4. The financial incapacity of the State is not admitted, being not convincing. It is observed that " the subsidy fixed long ago, represents a diminishing percentage of the growing revenues of the State."

5. The argument based on the payment for over a century and a quarter being a just ground for complaint is met by the argument that the payment is in accordance with solemn treaty obligations.

6. The view of the subsidy as " an out-of-date humiliation " is answered that there are good historical reasons for continuing the arrangements in force, in every case.

7. Regarding impending constitutional changes in British India, it is pointed out that the British Government would continue to be responsible for the maintenance of peace and for protection against external foes. "Until the responsibility is handed to a reformed Government which might be expected to involve a review of the conditions of co-operation by Indian States, there can be no anamoly in the continuance of treaty payments."

8. Remission claimed on services rendered by His Highness and the State during the War—a delicate question. The constitutional position of a State like Mysore, as described in Article 3 of the Treaty of 1913, makes it clear that it is one of the duties imposed on the State, the Government of India being however glad that the Rulers came forward voluntarily to render such assistance as was in their power.

9. The granting of 10 lakhs a year as a remission, a matter of favour—absence of sufficient justification for granting the concession at the expense of the British Tax-payers goes against the grant of the concession.

Application of the 15 per cent Scheme.

Introduction.

Probably, as a result of the several representations made from time to time about the reduction in the subsidy, His Excellency the Viceroy, during the course of his Banquet Speech at Mysore (29th November 1923) announced that "although the Government of India and the Secretary of State have been unable to accept the request of the Mysore Durbar in its entirety, I am glad to be able to inform your Highness that it is now open to your Government to claim some reduction in the amount of the subsidy annually payable. The system is connected with the Scheme for the re-organisation of the State Forces, which your Highness has under consideration."

Enunciation of the Principle.

When a State which pays tribute as the price of protection, maintains troops of undoubted efficiency for Imperial Defence and the expenditure on such troops *plus* the amount of the tribute amounts to over 15 per cent of the gross revenues of the State, such excess will be regarded as constituting a *prima facie* reason for a *pro tanto* remission of tribute according to the circumstances of each case. The factors to be considered are :—

(a) The past history of the state concerned.
(b) The financial capacity and the character of administration.
(c) The quality of the troops maintained and their value to the Imperial Government.

"For the purpose of the Scheme, the average annual revenue of the State for the past five years should be taken.

In the 15 per cent ratio will be included expenditure on Military Service Units, the cost of reserves and pensions, etc., of such units and internal security troops, ear-marked for the defence of strategic and important non-strategic railways within the State."

Defects and Objections.

1. Ambiguity of the term "gross revenues of the State." The Mysore Revenue Budget includes two items

which can be hardly regarded as ordinary revenues, *i.e.*, (*a*) royalty on gold and other minerals, and (*b*) revenues of debt and commercial services, resulting in difficulties and differences in calculation. The average gross revenues varying from 244·04 lakhs to 314·24 (*vide* page 88 of Vol. I., Papers relating to Tributes and Subsidy), the 15 per cent thereon varying from 36·60 to 47·14 lakhs. According to Residency Letter No. C. 3783—358 of 28th April 1925, the 15 per cent of gross revenues would work at approximately 46·29.

2. Difficulty in arriving at the actual military expenditure required under the scheme, resulting in a division of forces into two standards. The military expenditure was taken at 22 lakhs by the Government of Mysore (*vide* D. O. letter No. 68 of 13th June 1924), while it is calculated by the Residency in their letter No. C. 3783—358 at 14·84 lakhs.

3. The general conditions that influence the Government of India in fixing the remission in each case makes the scheme arbitrary.

4. No reference is made in regard to the existing system of the Government of India defraying certain items of expenditure on the Imperial Service troops mobilised for Field Service. Not clear whether the State or the Government of India will bear such charges in future.

5. The question of military charges to be borne by all Governments in India—those of Indian States and Provinces—has an intimate relation to the indirect contributions made by them in the form of customs, salt duty, interest on the fiduciary portion of the currency reserve, interest on the gold standard reserve and other similar items of direct and indirect taxes taken by the Central Government.

6. The percentage of 15 seems to be arbitrarily fixed. It seems impossible to devise a general ratio which expenditure on Defence should bear to Revenue, irrespective of local conditions.

7. Want of stability in the scheme, as it is based upon fluctuating factors.

Claim by the Government oe Mysore.

Taking the military expenditure at 22 lakhs, a reduction of the subsidy by 17 lakhs under the 15 per cent scheme was urged in D. O. letter No. R. 68 of 13th June 1924, the gross revenues being taken at 266·70 lakhs, 15 per cent thereon amounting to approximately 40 lakhs. Taking the general conditions, stated under the scheme, a further remission of 10 lakhs was prayed for.

The claim accepted by the Government of India differing essentially from the claim made out.

1. Request for taking the gross revenues of 2 years for finding the average instead of 5, not accepted.

2. The Government of India ruled that receipts on account of the royalty on gold, etc., and interest receipts, should be included in calculating the gross revenues. In the case, however, of railways and other commercial concerns a deduction from the gross receipts may be allowed on account of working expenses but not on account

of debt charges. Accordingly 15 per cent of gross revenues was shown at Rs. 46,29,560, the gross revenues of the five years ending 1922-23 being taken at Rs. 3,15,30,400, after making provision of one lakh tentatively for deduction under the head of working expenses for railways and other commercial concerns.

3. Military charges permitted to rank towards eligibility for remission was taken at 14·84 instead of 22 lakhs as shown by the Government of Mysore.

4. The claim for a further remission of 10 lakhs, in view of the general considerations under the Scheme, it was pointed out that they applied for the grant of the full benefit under the 15 per cent Scheme and not for further remission.

5. The claim, thus admitted, was only to the extent of 3·55 lakhs, even this being subject to the furnishing of further detailed information as may be considered necessary in regard to gross revenues and the military expenditure of the State. The reduction to take effect from the date on which the Mysore troops in respect of which the remission is to be granted, are certified by the Military Adviser-in-Chief, Indian State Forces, as efficient and that a definite and unconditional undertaking should be given that they will be placed at the disposal of the Government of India on the occurrence of an emergency.

No Relief under the Scheme.

The amount of reduction in subsidy claimed being 17 lakhs, based on the elimination from gross revenues of (1) royalty on gold and other minerals, and (2) interest and sinking fund charges and the expenditure on the army being taken at 22 lakhs, not being accepted, the rebate suggested by the Government of India amounts to 3·50 lakhs or 1·29 lakhs (due to differences in the calculation of gross revenues). Against this remission, has to be met the additional expenditure of 3·30 lakhs to be incurred before the claim is to be made. The net financial result is either no relief or an additional burden to be borne by us.

Course to be pursued.

There are now two courses open, *viz.*, (1) to press the entire question of the re-adjustment of the financial relations between the State and the Government of India including our right to participate in customs and other items of revenue contributed by the people of Mysore indirectly to British Revenues, or (2) ask for some temporary relief, pending disposal of the larger question.

The whole discussion of the question relating to remission of the Subsidy payable under the Treaty of 1913 has to be carried to a new plane altogether. Hitherto what has been under consideration was the equity or otherwise of the payments demanded for an individual State. Hereafter it is understood that the question in issue is the fair contribution towards Imperial Defence of the States in general, the interests of the tax-payer in British India being likewise taken into account.

1. Viewed from the point of equity alone and in the light of the circumstances surrounding the various agreements made between the British Government and the Government of His Highness, and of the conditions now

existing, it appears to this Government that, if the equity of the Mysore subsidy were the sole question in issue, the case for a reduction is incontestable. His Highness' Government, however, fully recognise that, if the question in issue is the fair contribution of all parts of India alike, the examination of the question of the equity of particular agreements might be productive of embarrassments and may be expected to give way in favour of a solution of the major question.

2. For similar reasons, His Highness' Government do not propose to examine the particular ratio of expenditure on Imperial Defence to Revenue that is put forward as equitable. All they would urge is that steps, such as are possible, be taken to secure the general acceptance of the ratio early as possible, since otherwise, the States that are at present making treaty payments will be subjected to a manifest inequity.

3. It is suggested that a sum equivalent to 15 per cent of the State's Revenues should be determined at the outset, if not in perpetuity, at least for a long term of years, and converted into terms of military units at British Indian Standard rates, and that so long as the units so determined ~~are~~ maintained at or above the requisite standard of efficiency, all entries relating to subsidies or treaty payments should be expunged from the accounts. It is probable that it would take some considerable time to bring all the proposed new units up to the requisite standard of efficiency, and for this period His Highness' Government would not object to the payment of a gradually diminishing subsidy.